

1776 K STREET NW
WASHINGTON, DC 20006
PHONE 202.719.7000
FAX 202.719.7049

7925 JONES BRANCH DRIVE
MCLEAN, VA 22102
PHONE 703.905.2800
FAX 703.905.2820

www.wileyrein.com

December 7, 2009

Bennett L. Ross
202.719.7524
bross@wileyrein.com

EX PARTE

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: *Petition for Waiver by Iowa Telecommunications Services, Inc.*,
WC Docket No. 05-337

Federal-State Joint Board on Universal Service,
CC Docket No. 96-45

Dear Ms. Dortch:

At an October 15, 2009 meeting with the Staff of the Wireline Competition Bureau, Iowa Telecommunications Services, Inc. ("Iowa Telecom") was asked to provide answers to several questions regarding the use of forward-looking economic cost rather than historical investment to determine universal service support for certain rural carriers. Iowa Telecom requested that the Commission incorporate into its Notice of Proposed Rulemaking to address *Qwest Communications Int'l, Inc. v. FCC*, 398 F.3d 1222 (10th Cir. 2005) ("*Qwest Remand NPRM*"), a proposed rule by which high-cost support for rural price cap carriers could be determined based upon forward-looking economic cost. Specifically, Iowa Telecom asked that the Commission propose a rule – to which the public and the industry could submit comment – that would provide a one-time opportunity for rural price cap carriers to opt in to the non-rural high cost fund.

As a threshold matter, the Commission consistently has endorsed forward-looking economic cost as the appropriate basis for determining eligibility for high-cost support. Relying on the recommendations of the Federal-State Joint Board on Universal Service ("Joint Board"), the Commission in the *First Report and Order* "establish[ed] that the level of support for service to a particular customer will ultimately be determined based upon the forward-looking economic cost of constructing and operating the network facilities and functions used to provide that

Ms. Marlene H. Dortch

December 7, 2009

Page 2

service.”¹ Finding that the use of forward-looking economic cost – compared to historic embedded cost – better approximates the actual cost of providing supported services and rewards efficiency,² the Commission stated that the use of forward-looking economic cost “send[s] the correct signals for entry, investment, and innovation.”³ The U.S. Court of Appeals for the Fifth Circuit also found that a forward-looking economic cost-based mechanism more effectively harmonizes the dual universal service and competitive goals of the Act, concluding that this mechanism creates an “incentive [for carriers] to improve [their] operations.”⁴

In contrast, the Commission determined that, particularly in under-invested areas with low embedded cost, embedded cost-based support may stifle network investment by both incumbent and competitive carriers.⁵ Specifically, the Commission found “if [an incumbent LEC’s] embedded cost is below forward-looking economic cost, support based on embedded costs would [also] erect an entry barrier to new competitors.”⁶ Importantly, the Commission recognized that support based upon forward-looking economic cost would “bring greater economic opportunities to *rural areas* by encouraging competitive entry and the provision of new services.”⁷

While finding that all carriers should use forward-looking economic cost as the basis for universal service support, the Commission set a hard transition deadline only for non-rural carriers.⁸ In doing so, the Commission declined to adopt a further recommendation of the Joint Board “that, on request, any rural carrier should be permitted to elect to use a proxy model to determine its support level.”⁹ Instead,

¹ *Federal-State Board on Universal Service*, Report and Order, 12 FCC Rcd. 8776, ¶ 199 (1997) (“*First Report and Order*”) (subsequent history omitted).

² *Id.* ¶ 225.

³ *Id.* ¶ 224.

⁴ *Tex. Office of Pub. Util. Counsel v. FCC*, 183 F.3d 393, 412 (5th Cir. 1999).

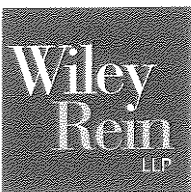
⁵ *First Report and Order*, ¶ 228.

⁶ *Id.*

⁷ *Id.* ¶ 293 (emphasis added).

⁸ *Id.* ¶ 273. The Joint Board correctly explained that there is “no statutory requirement that the Commission use the Act’s definition of rural telephone company for high-cost universal service purposes.” *Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission’s Rulings Relating to High-Cost Universal Service Support*, Public Notice, 19 FCC Rcd. 16083, ¶ 9 (2004) (“*Joint Board 2004 Notice*”). There is no statutory need to establish separate non-rural and rural mechanisms.

⁹ *Federal-State Joint Board on Universal Service*, Recommended Decision, 12 FCC Rcd. 87, ¶ 283 (1996).



Ms. Marlene H. Dortch
December 7, 2009
Page 3

with respect to rural carriers, the FCC mandated that “rural carriers would gradually shift [over a three-year period] to a support system based on forward-looking economic cost” after further Commission review.¹⁰ Yet, more than a decade later, the shift to a support system for rural carriers based on forward-looking economic cost has yet to occur.

In the meantime, members of Congress have endorsed the use of forward-looking economic cost for establishing universal service support for at least some rural carriers. Specifically, section 103 of the draft Universal Service Reform Act of 2009, which is sponsored by Rep. Rick Boucher (D-VA) and Rep. Lee Terry (R-NE), would permit an incumbent eligible telecommunications carrier to elect to have the Commission calculate its universal service support based upon forward-looking economic cost.

Against this backdrop, Iowa Telecom submits the following responses to the three questions Staff posed during our recent meeting:

(1) How should Iowa Telecom’s rate-of-return regulated entities be treated if Iowa Telecom is permitted to have its universal service support calculated based upon forward-looking economic cost?

Iowa Telecom operates the Montezuma Telephone Company and Lakedale Telephone, into which the assets of Sherburne County Rural Telephone Corporation were recently transferred, under rate-of-return regulation. If Iowa Telecom is permitted to have its high cost support calculated based upon forward-looking economic cost, this calculation should be made for all of Iowa Telecom’s operating subsidiaries. Indeed, Iowa Telecom would consider the possibility of electing price cap regulation at the interstate level for those study areas that currently operate under rate-of-return regulation. The uniform treatment of a rural price cap carrier’s

¹⁰ *First Report and Order*, ¶¶ 204, 216 (concluding that “[r]ural carriers would . . . shift over a three-year period beginning January 1, 2001 to a mechanism for calculating support based on a cost model”); see also *Federal-State Joint Board on Universal Service*, Fourteenth Report and Order, 16 FCC Rcd. 11244, ¶ 4 (2001) (reiterating the Commission’s conclusion that “rural carriers would shift gradually to a forward-looking economic cost methodology”) (“*Rural Task Force Order*”). The Commission’s initial reluctance to establish universal service support for rural carriers based on forward-looking economic cost was due, in part, to concerns about the workability of a forward-looking economic cost mechanism for rural carriers and the FCC’s minimal experience with the computer models necessary to estimate hypothetical economic cost. However, these concerns have largely dissipated with the passage of time.

Ms. Marlene H. Dortch

December 7, 2009

Page 4

operating subsidiaries for purposes of calculating high cost support would ensure internal consistency and also would be more appropriate than a subsidiary-by-subsidiary approach given the Commission's goal of adopting a forward-looking economic cost support mechanism for all carriers.

(2) *How would the FCC calculate forward-looking economic cost for rural carriers?*

Forward-looking costs for rural carriers should be calculated using the FCC's HCPM/HAI Synthesis Cost Proxy Model ("Synthesis Model"), which is currently used to calculate universal service support for non-rural carriers. Iowa Telecom recognizes the challenges associated with the Synthesis Model but believes that modest adjustments to the model's inputs can be made in order to make the necessary calculations. Attachment 1 is an analysis prepared by QSI Consulting ("QSI") outlining a methodology employed in 2006 to use the Synthesis Model to calculate Iowa Telecom's high cost support based upon forward-looking economic cost. QSI utilized the "official" version of the FCC model available on the FCC web site, adopted the FCC default inputs, and updated those company-specific inputs that the FCC typically updates when producing company-specific model cost estimates. This same or similar approach could be used to calculate forward-looking economic cost for other rural price cap carriers.¹¹

The Commission reviewed this approach in *Iowa Telecom Petition for Forbearance Under 47 U.S.C. § 160(c) from the Universal Service High-Cost Loop Support Mechanism*, Memorandum Opinion and Order, 22 FCC Rcd 15801 (2007) (*Iowa Telecom Forbearance Order*). The Commission's only specific criticism of the methodology employed by QSI was that QSI had used Iowa Telecom's line counts for year-end 2004, while the FCC's calculations of support for non-rural carriers under the Synthesis Model are based on year-end 2002 line counts. *Id.*, ¶ 25. Although the Commission considered re-running the Synthesis Model for all other carriers using year-end 2004 line count data or re-running the model for both Iowa

¹¹ Additional updates to the Synthesis Model beyond those made by QSI may be appropriate. For example, QSI did not update general support investment as the FCC typically does because the data was not available; the source for these data is an ARMIS report that Iowa Telecom and other rural carriers are not required to file.

Ms. Marlene H. Dortch
December 7, 2009
Page 5

Telecom and all other carriers using the most recent line count data, it declined to do so because, according to the Commission, updating line counts without updating other inputs (which had been the Commission practice up until 2004, *id.* n.87) would “raise significant issues.” *Id.* ¶ 25. The Commission could resolve such issues by using 2002 line counts for all carriers, unless and until the Commission updates other inputs to the model.

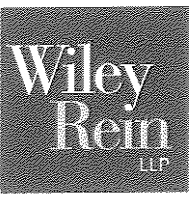
But the Commission need not decide at this juncture the particular methodology that should be employed to calculate universal service support for rural price cap carriers using the Synthesis Model. Instead, the Commission should propose a rule in the *Qwest Remand NPRM* by which rural price cap carriers would be given a one-time election to participate in the non-rural high cost fund. This would allow the industry and other interested parties to provide input on the best approach of implementing the proposed rule consistent with the Commission’s current forward-looking cost methodology.

(3) How would allowing or requiring price cap carriers to have their universal service support calculated based upon forward-looking cost under the non-rural fund affect the size of the high cost fund and the current contribution factor?

Iowa Telecom has not performed the calculations necessary to provide a definitive answer to this question and is unable to do so as a practical matter.

As set forth in Attachment 1, QSI estimated that Iowa Telecom’s participation in the high-cost non-rural support mechanism would increase the fund by approximately \$7.7 million. But, Iowa Telecom does not currently receive any high-cost loop support today. For other rural price cap carriers that may elect to or be required to have their support calculated based upon forward-looking economic cost, there may be offsetting reductions in support provided under the current rural mechanism.

In addition, the non-rural high-cost support mechanism determines support based upon a comparison of state-wide average costs to a benchmark (two standard deviations of the national average) – an approach that the Commission is revisiting as a result of the Tenth Circuit’s decision. Thus, the Commission may be making other adjustments to the non-rural mechanism that could impact the size of the fund and the contribution factor, which Iowa Telecom is unable to quantify at this juncture.



Ms. Marlene H. Dortch

December 7, 2009

Page 6

Two years ago, the Commission reiterated its "policy goal" of moving all carriers "to a forward-looking economic cost support mechanism." *Iowa Telecom Forbearance Order*, 22 FCC Rcd 15801, ¶ 11. The Commission can take an important step toward accomplishing this goal by incorporating in its *Qwest Remand NPRM* a proposed rule that would provide a one-time opportunity for rural price cap carriers to opt in to the non-rural high cost fund.

Pursuant to 47 C.F.R. § 1.1206, please include this ex parte filing in the above-referenced dockets.

Sincerely,

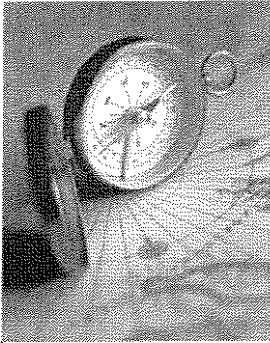
A handwritten signature in black ink, appearing to be "Bennett L. Ross", with a long horizontal line extending to the right.

Bennett L. Ross

BLR/rw

cc: Jennifer McKee
Irene Flannery
Katie King
Gary Seigel
Don Stockdale
Ted Burmeister

ATTACHMENT 1



QSI TECHNICAL DOCUMENTATION

Document Number: 123005A

Evaluation of the Impact of Iowa Telecom's Participation in the Federal Non-Rural High Cost Support Program

CONFIDENTIAL

March 2006



Prepared by:
Tim Gates
Olesya Denney, Ph.D.

Contact
Information

Michael Starkey
2977 Highway K
Box #304
O'Fallon, MO 63366-7862
www.qsiconsulting.com
636.272.4127

CONFIDENTIAL

I. Executive Summary	1
II. Project Scope	1
III. Computation of Forward-Looking Costs	2
A. The Model	2
B. Updates to the Model Inputs	2
1. Line Count Update	3
2. Traffic Parameters Update	3
3. General Support Facilities	5
4. Technical Updates	5
5. Sold Exchanges	6
IV. Calculation of Support	7
V. Results	8

ATTACHMENTS

- Attachment 1. Update to Line Counts.
- Attachment 2. Update to Traffic Parameters.
- Attachment 3. Support Calculations.
- Attachment 4. Synthesis Model Output files:
 - Attachment 4a. IA_GTE And Contel Of Io_Updated.xls
 - Attachment 4b. IA_Contel of KS_Updated.xls
 - Attachment 4c. IA_Contel Of Iowa DbA G_Updated.xls
- Attachment 5. Update to Financial Data.
- Attachment 5a. ARMIS file coia.xls
- Attachment 5b. ARMIS file cosi.xls
- Attachment 5c. ARMIS file gtia.xls

CONFIDENTIAL

I. Executive Summary

Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom ("Iowa Telecom" or "Company") asked QSI Consulting, Inc. ("QSI") to evaluate the impact of Iowa Telecom's Participation in the federal non-rural high cost support program. The project scope included calculation of the Company's forward-looking wire center monthly per line costs using the FCC HCPM/HAI Synthesis Cost Proxy Model ("Synthesis Model") and the estimation of the impact of adding Iowa Telecom to the FCC's mechanism of non-rural high cost support.

QSI estimated that the Iowa Telecom's average monthly per line cost of supported services is \$56.59, which is approximately twice as high as the current nationwide benchmark used to determine the non-rural high cost support. If Iowa Telecom is added to the federal non-rural high cost support mechanism, the nationwide fund would increase by approximately \$7.7 million. Iowa Telecom would receive approximately \$22.2 million in annual non-rural high cost support.

II. Project Scope

Iowa Telecom asked QSI to evaluate the impact of Iowa Telecom's participation in the federal non-rural high cost support program. The parties agreed that the project scope would include four elements:

1. QSI would utilize the FCC Synthesis Model to calculate average forward looking monthly costs for supported telecommunications services for each Iowa Telecom local exchange area. QSI would use the FCC approved default inputs and any other Company specific inputs that may be required to compute these costs in a manner fully compliant with the FCC's rules and practices for computation of the federal non-rural high cost support.
2. QSI would provide a brief report identifying the parameters and results of the Synthesis Model runs. Those results would be available to the Company for use in a petition to the FCC for Universal Service Fund ("USF") support. The report and model run information may also be used before the Iowa Utilities Board ("Board").
3. QSI would compute the impact on the fund of adding Iowa Telecom's lines to the FCC's calculation of non-rural high cost support.
4. QSI would assist the Company in responding to Board and/or FCC questions concerning QSI's computation of these costs. The project would not include expert testimony by any QSI employee on behalf of Iowa Telecom.

III. Computation of Forward-Looking Costs

A. The Model

QSI used the version of the Synthesis Model that was available on the FCC web site at the time of this project.¹ For this project QSI acquired the customer location database for the State of Iowa from INDETEC International, Inc., a subsidiary of Taylor Nelson Sofres ("TNS"), under a license agreement. Because the customer location database has not been updated recently, Iowa Telecom's exchanges appear in this database under the name of their former owner, GTE. The following table provides the relationship between the study areas of Iowa Telecom and the study areas used in the database and model.

Table 1. Correspondence Between Iowa Telecom's Study Areas and Study Areas in the Model

IOWA TELECOM		MODEL (GTE)	
NECA ID	STUDY AREA NAME	NECA ID	STUDY AREA NAME
351167	ITS-IOWA TELECOM-NO	351186	GTE AND CONTEL OF IA
351170	ITS-IOWA TELECOM-SYS	351790	CONTEL OF KS
351178	ITS - IOWA TELECOM	351207	CONTEL OF IA DBA GTE IA

B. Updates to the Model Inputs

QSI's updates to the Synthesis Model inputs were based on the input updates typically done by the FCC for the annual calculation of the non-rural high cost support. QSI identified these updates by reviewing the FCC *Line Counts Orders*.² QSI determined that the FCC updates impacted three groups of data: (1) Wire Center Line Counts;³ (2) Traffic Data;⁴ and, (3) General Support Facilities Investment.⁵ QSI also made (4) several Technical Updates and (5) excluded exchanges that Iowa Telecom either had sold or was in the process of selling. Each of these updates to the model inputs is described below.

¹ The model was downloaded from the FCC web site on January 13, 2006 (URL <http://www.fcc.gov/web/tapd/hcpm/welcome.html>, file hcpm_install.zip).

² In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Order and Order on Reconsideration* adopted on December 23, 2003 ("2004 Line Counts Order"), which is the most recent *Line Counts Order*. Previous *Line Counts Orders* include *Order and Order on Reconsideration* adopted on December 18, 2001 ("2002 Line Counts Order") and *Order* adopted on December 7, 2000 ("2001 Line Counts Order").

³ 2004 *Line Counts Order*, ¶¶ 6 and 9.

⁴ *Id.*, ¶ 24.

⁵ *Id.*

CONFIDENTIAL

1. Line Count Update

The FCC updates study-area total switched and special line counts with the most recent year end line count data available at the time.⁶ To avoid burdensome reporting requirements, the FCC collects only the aggregated data, specifically the total switched line counts by wire center and study-area total special line counts. The FCC allocates switched line counts between services, and special line counts between wire centers using the “baseline” disaggregated data – line counts by service and wire center collected by the FCC in 1999 through a special data request (“1999 Data Request”).⁷

Because the “baseline” disaggregated line count data are not available for Iowa Telecom,⁸ QSI requested current disaggregated line count data from the company. Specifically, QSI requested the most recent year-end line count data disaggregated according to the FCC *1999 Data Request*.⁹ Iowa Telecom provided these data to QSI for year-end 2004. In addition to the line counts, this dataset included a list of seven wire centers that Iowa Telecom is currently selling and one wire center that has been sold. Although the sales have not yet been approved, QSI excluded these exchanges from the calculation of high cost support in anticipation of such approval. These eight exchanges are referred to as “sold exchanges” throughout this report.

Attachment 1 contains the Iowa Telecom's raw wire center data as provided to QSI by the Company and data manipulations performed by QSI to bring this information to the Synthesis Model format. The results of these manipulations were used to update table *Line Count* in the model's database *HCPM.mdb*.

2. Traffic Parameters Update

In the past, the FCC updated the Synthesis Model with the most recent Dial Equipment Minute (“DEM”) data available from the National Exchange Carrier Association (“NECA”).¹⁰ These data were split by jurisdiction, which allowed the model to allocate total switch costs between supported (intrastate) and non-supported (interstate) services.¹¹ Many carriers stopped reporting the jurisdictionally separated DEM data following the FCC freeze of jurisdictional separations in 2001.¹²

⁶ For example, the cost model used to calculate support for non-rural carriers beginning in January 2004 was updated with year-end 2002 line counts (*Id.*, ¶ 6).

⁷ *Id.*, ¶ 3.

⁸ As explained below, Iowa Telecom's wire center data are not included in the current version of the Synthesis Model.

⁹ This data request is contained in the following FCC order: In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45 and Forward-Looking Mechanism for High Support for Non-Rural LECs, CC Docket No. 97-160. *Order* adopted on July 19, 1999.

¹⁰ *2004 Line Counts Order*, ¶ 24 and *2002 Line Counts Order*, ¶ 19.

¹¹ *2002 Line Counts Order*, ¶ 18.

¹² In the Matter of Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286. *Report and Order* adopted on May 11, 2001.

CONFIDENTIAL

The *Line Counts Orders* do not discuss whether the freeze would affect the FCC procedures for updating model traffic inputs for the calculation of non-rural high cost support. Note that the most recent *2004 Line Counts Order* states that the FCC will update the model with the most recent traffic parameters available from NECA. The *2002 Line Counts Order* also notes that the NECA data used in the model are (and have been) one year behind the Automated Reporting Management Information System ("ARMIS") data used in the model. The later statement suggests that the 2004 support (support calculation discussed in the most recent, *2004 Line Count Order*) was calculated using the 2001 NECA DEM data – the year when some carriers were still reporting jurisdictionally separated DEMs, while others no longer reported these data, in which case 2000 data must have been used.¹³

The latest jurisdictionally separated DEM information available for Iowa Telecom is for 2000.¹⁴ QSI used these data to update the company's DEM data in the Synthesis Model through the model's scenario tables.¹⁵

The *2002 Line Counts Order* also talks briefly about the use of other traffic data (data other than DEMs) available from ARMIS – local call attempts and intraLATA messages reported in ARMIS 43-08 Table IV.¹⁶ Although it is not absolutely clear from the most recent *2004 Line Counts Order* whether these data have been updated,¹⁷ QSI decided that such update had been made as part of the Commission's general update to the ARMIS data files (this update is discussed below in conjunction with the general support investment).

Iowa Telecom reports to the FCC its call data through its ARMIS report 43-08 Table IV. QSI used the most recently available 2004 call data¹⁸ to update the traffic parameters in the Synthesis Model through its scenario tables.¹⁹ Because ARMIS report 43-08 is provided at the holding company level, while the model is organized by NECA study area,²⁰ QSI had to allocate company-wide call and message counts between Iowa Telecom's three study areas. QSI performed this allocation by assigning call and message counts to study areas in proportion to the distribution of DEMs in the relevant jurisdiction. For example, "local call attempts" were allocated between the three study areas according to the distribution of local DEMs, while "calls completed interLATA interstate" were allocated according to the distribution of interstate DEMs.

¹³ A comparison of the list of carriers in the NECA Network Usage files for 1997-2000 and 1998-2001 available at <http://www.fcc.gov/web/iatd/neca.html> shows that some carriers continued to report DEMs in 2001, while for the other carriers the most recent DEM information available is for 2000.

¹⁴ *Id.*

¹⁵ File *HM50.mdb* table *wire_center_inputs*.

¹⁶ *2002 Line Counts Order* ¶ 19 and footnote 49.

¹⁷ *2004 Line Counts Order* talks about the updates to traffic parameters only briefly (¶ 24).

¹⁸ Submission 2, which reflects corrections made by the company in early 2006.

¹⁹ File *HM50.mdb* table *wire_center_inputs*. Traffic categories in the Synthesis Model coincide with the traffic categories in ARMIS 43-08 Table IV. They include local call attempts, calls completed intraLATA, calls completed interLATA intrastate and calls completed interLATA interstate.

²⁰ NECA IDs 351167, 351170 and 351178.

CONFIDENTIAL

Attachment 2 contains the derivation of traffic updates.

3. General Support Facilities

The FCC updates company-specific ARMIS data used to calculate General Support Facilities investment²¹ such as buildings, motor vehicles and general purpose computers, on an annual basis. The model algorithms perform this calculation by utilizing company-specific ARMIS files contained in the model's *ARMIS* folder.²² Note that these ARMIS files contain general support investments at the 4-digit account level. In other words, building investment (account 2112) is being listed separate from motor vehicle investment (account 2112) and general purpose computers (account 2124). Similarly, the model's algorithms calculate the forward-looking general support investments at the 4-digit account level.

The account-level information for general support investments utilized by the model is not available from Iowa Telecom's ARMIS reports filed with the FCC because the company does not report these data to the FCC.²³ However, the company provided these data to QSI, which QSI used to update ARMIS files of the model. Attachment 5 contains the financial data provided by the company, as well as QSI's calculations based on these data necessary to populate the ARMIS files.²⁴ Attachments 5a through 5c contain the final updated ARMIS files that replaced the original company-specific ARMIS files in the model's *ARMIS* folder.

4. Technical Updates

Certain input files of the current version of the Synthesis Model do not contain all the necessary information on Iowa Telecom's wire centers. The most important example of missing data is in the wire center table *CLLI by NECA* of the model's database *HCPM.mdb*, without which the model cannot run.²⁵ QSI updated this table by adding to it Iowa Telecom's wire centers in the format used elsewhere in the model. Specifically, the company names and NECA IDs used in this table correspond to the former owner of Iowa Telecom properties, GTE.

²¹ 2004 Line Counts Order ¶ 24 and 2002 Line Counts Order ¶¶ 16-17.

²² The model copies this information to worksheet *ARMIS Inputs* of the Expense Module (model's output file), from where this information is being fed to the calculations of general support investments in worksheet *96 Actuals*.

²³ Iowa Telecom files two ARMIS reports, 43-10 *Annual Summary* and 43-08 *Operating Data*, neither of which contain the necessary account-level investment information.

²⁴ Note that not all the data in these ARMIS files are used by the model. Following the FCC practice, QSI updated only those fields that are actually used by the model. Note also that QSI did not update the call data fields of these files because QSI updated call data through the model's scenario tables. (See section 2 "Traffic Parameter Updates" above).

²⁵ The model uses this table to upload TNS customer location data.

CONFIDENTIAL

Another example of the missing data is the absence of Iowa Telecom's wire centers from table *LineCount* of the model's database *HCPM.mdb*. This QSI update has already been discussed in the "Line Count Update" section above. In addition to the line counts, this table contains household counts by wire center. The only source of the household counts available to QSI is the TNS customer location database. In order to extract these counts from the TNS database in an efficient manner,²⁶ QSI performed a default wire center model run for each of the three Iowa Telecom's study areas.²⁷ QSI used the household counts by wire center listed in the output files of the default run (worksheet *Investment Input*) to populate the "households" column in the *LineCount* table of the model's database *HCPM.mdb*.

The last technical update is related to the mismatches between the wire center CLLI codes in the model and the Company data. The FCC discussed such mismatches in its *2000 Line Count Order*.²⁸ Both cases of mismatches described in this order were present in the Iowa Telecom data. Specifically, in one case the spelling of a wire center CLLI included symbol "underscore" in one source, and "space" in another source.²⁹ In two other cases the last letter in the 8-digit CLLI code was different, but the switch locations were the same.³⁰ Following the FCC practice, QSI corrected such mismatches according to the spelling of the CLLI codes in TNS customer location database.

5. Sold Exchanges

As discussed above, Iowa Telecom has sold an exchange³¹ and is in the process of selling seven other exchanges.³² At the request of Iowa Telecom, QSI excluded these eight wire centers from the calculation of total support and the model.³³

²⁶ This database is composed of 808 text-based files by the number of wire centers in Iowa. Household counts in each file are listed by customer location.

²⁷ These default runs were performed prior to the update of table *LineCount*, but after the update to table *CLLI_by_NECA*. Note that the model does not run without the update to the later table. At the same time it runs even if the company's wire centers are absent from table *LineCount*. The household counts generated by this default runs are contained in worksheet *from Inv Tab of Default Run* of Attachment 1.

²⁸ *2001 Line Counts Order* ¶ 17 and footnote 43.

²⁹ CLLI UTE_IAXO is also spelled as UTE IAXO.

³⁰ CLLI pairs MXWLIAXP and MXWLIAXO; and HRLNIAXT and HRLNIAXR. Note that in the second case the Iowa Telecom's line count data base contains CLLI HRLNIAXT, but this code is absent from the TNS database. Instead, the TNS database contains CLLI HRLNIAXR listed as a property formerly owned by GTE. The model's *distance* (LERG) files indicate that both CLLI codes have the same V&H coordinates, though CLLI HRLNIAXR is owned by another company. QSI assigned Iowa Telecom's lines for HRLNIAXT to the model's CLLI HRLNIAXR.

³¹ CLLI OXJTIAXO was sold earlier this year. In addition, CLLIs CRWTIAXP and KLMMIAXP were sold in 2002 and do not appear in the Iowa Telecom's line count database.

³² CLLIs BXTIAXP, CNRDIAXO, ELDAIAXO, MLBRIAXP, RHDSIAXO, STCTIAXP and STRKIAXO.

³³ QSI excluded these wire centers from the model by updating the model database *HCPM.mdb* and its Iowa *distance* file (*IA_Distance.xls* in folder *DISTANCE*). Update to the database was made by excluding

CONFIDENTIAL

Attachment 4 contains the model's output files that resulted from the above described QSI updates and which were used in the calculation of support.

IV. Calculation of Support

QSI estimated the amount of support that Iowa Telecom would receive under the non-rural high cost support mechanism using 47 CFR § 54.309 ("Calculation and Distribution of Forward-Looking Support for Non-Rural Carriers") and the 2004 Support Spreadsheet³⁴ that was available at the FCC web site at the time of this project.³⁵ QSI also calculated the overall impact of adding Iowa Telecom to the mechanism. These calculations are contained in Attachment 3 to this Report.

Under the current FCC rule noted above (§ 54.309), the calculation of support includes five steps:

1. The company specific monthly per line costs by wire center are determined by the model.
2. The per line costs of all non-rural carriers in the state are averaged together (weighted by lines) to calculate a statewide average cost.
3. The nationwide benchmark is calculated based on statewide average costs in all states. This benchmark is equal to two weighted standard deviations from the national average cost per line.
4. For the states where the statewide average cost exceeds the national benchmark, the state-level support is calculated. The total support is a product of total supported lines and per line support, where the per line support is equal to 76% of the difference between the statewide cost and the national benchmark.
5. Support available to a state is distributed between non-rural carriers based on the wire center level costs per line. Specifically, the support is distributed to the wire centers where per line costs exceed the benchmark. This distribution is proportional to the difference between the specific wire center costs and the benchmark.

As seen from the description of steps 2 through 5, they involve cost and line count information for carriers other than Iowa Telecom – information that is not publicly available or is available only on a historical basis. In such cases QSI utilized older data – the data that are of different vintages than the QSI estimates of Iowa Telecom's forward-looking costs. Specifically, the estimates of Iowa Telecom's wire center forward-looking

these wire centers from the database table *LineCount*. Update to the distance file was accomplished by assigning these wire centers to a NECA ID name of another company picked at random.

³⁴ <http://www.fcc.gov/wcb/tapd/hcpm/welcome.html>.

³⁵ The 2004 Support Spreadsheet was downloaded on November 15, 2005.

CONFIDENTIAL

costs are based on 2004 actual line counts and model runs updated for calculation of 2006 support. At the same time the line counts and per line costs of other carriers (necessary to calculate the cost benchmark and total support by state described in steps 2 through 4) are based on the FCC 2004 support model runs (which reflect 2002 line counts).

Further, in order to distribute statewide support between carriers (step 5), it is necessary to know wire-center level per line costs and line counts of all carriers in the state that participate in the non-rural high cost support mechanism. For the purposes of this study QSI needed to utilize the wire center level per line costs and line count information for Qwest-Iowa – information that is publicly available only for the Commission's original model runs in 2000.³⁶

Finally, a portion of support allocated to Iowa Telecom's wire centers would be paid to eligible competitive local exchange carriers ("CLECs") operating in Iowa Telecom's wire centers under arrangements other than resale (if any). Allocation of such support would be based on 47 CFR § 54.307 ("Support to a Competitive Eligible Telecommunications Carrier"), and would involve information on carrier eligibility, the relation between UNE prices and wire-center specific costs, and the line counts of facilities-based CLECs that provision their services using neither UNE, nor resale agreements. Because the total count of CLEC lines in the serving territory of Iowa Telecom is expected to be relatively small, and because under the current rules Iowa Telecom may be receiving some support for the UNE based lines,³⁷ QSI decided not to perform detailed calculations that would separate support to Iowa Telecom from support to the CLECs operating in its territory.

V. Results

The following three tables present the impact of adding Iowa Telecom to the non-rural high cost support mechanism.

**Table 2. Monthly Per Line Costs Under the Scenario That
Iowa Telecom Participates in the Non-Rural High Cost Fund**

Category	With Iowa Telecom*	2004 Actual**	Change
Nationwide Benchmark	\$ 28.35	\$ 28.13	\$ 0.23
Iowa Statewide	\$ 30.27	\$ 24.19	\$ 6.08
Iowa Telecom	\$ 56.59	NA	NA
Qwest-Iowa	\$ 24.19	\$ 24.19	-

* -- Excludes Iowa Telecom's "sold" exchanges.

** -- From the FCC 2004 Support Spreadsheet.

³⁶ File *wcsupport.xls* worksheet *WCData* available at <http://www.fcc.gov/web/tapd/ncpm/welcome.html>.

³⁷ According to 47 CFR § 54.307 (2), an eligible CLEC would receive support in the amount equal to the lesser of the UNE rate and the incumbent's per line support. In addition, the incumbent providing this UNE would receive a difference between the CLEC's support and the incumbent's per line support.

CONFIDENTIAL

As shown in Table 2, Iowa Telecom's average cost per line is approximately two times higher than the nationwide benchmark, and the Iowa statewide cost would be above the benchmark under the scenario in which Iowa Telecom participates in the non-rural high cost support mechanism. The later result implies that under the current rules the State of Iowa would be a recipient of non-rural high cost support.

Table 3 below provides the total dollar estimates of non-rural high cost support for Iowa and nationwide, as well as the portion of support associated with Iowa Telecom's wire centers. As explained in section IV, the total support for Iowa Telecom includes support associated with its UNE based CLEC customers, and excludes support associated with the Iowa Telecom's wire centers that are currently being sold. The total support associated with Iowa Telecom's wire centers is estimated to be \$22.2 million annually.

**Table 3. Annual Nationwide and Iowa Support Under the Scenario That
Iowa Telecom Participates in the Non-Rural High Cost Fund**

Support Category	With Iowa Telecom*	2004 Actual**	Increase
Nationwide Annual Support	\$ 285,552,855	\$ 277,837,768	\$ 7,715,087
State of Iowa Annual Support	\$ 28,569,185	\$ -	\$ 28,569,185
Iowa Telecom's Support***	\$ 22,230,952	\$ -	\$ 22,230,952

* -- Excludes Iowa Telecom's "sold" exchanges.

** -- From the FCC 2004 *Support Spreadsheet*.

*** -- Approximation based on Qwest 2000 Wire Center Model Results. Includes CLEC UNE lines.

Because the addition of Iowa Telecom to the mechanism increased the national benchmark slightly,³⁸ no new states other than Iowa appear on the support list compared to the actual 2004 FCC support calculations. No state previously receiving support dropped off the list, but each will receive less support when Iowa Telecom is added. Qwest's wire centers in Iowa will begin receiving about \$6.3 million in new support, while Qwest's wire centers in Montana, Nebraska, South Dakota and Wyoming, in aggregate, will receive about \$3.8 million less support. BellSouth's wire centers will receive about \$12.4 million less in Alabama, Kentucky and Mississippi. Verizon's wire centers will receive about \$4.6 million less in Maine, Vermont and West Virginia. There will be no impact on AT&T. These changes by state are summarized in Table 4.

³⁸ The increase is only \$0.23 as shown in Table 2.

CONFIDENTIAL

**Table 4. Annual Support By State Under the Scenario That
Iowa Telecom Participates in the Non-Rural High Cost Fund**

State	Support With Iowa Telecom	2004 Actual Support*	Change
IA	\$ 28,569,185	\$ -	\$ 28,569,185
AL	\$ 39,982,721	\$ 44,879,670	\$ (4,896,949)
KY	\$ 13,252,556	\$ 17,207,630	\$ (3,955,074)
ME	\$ 495,546	\$ 2,162,641	\$ (1,667,095)
MS	\$ 127,977,729	\$ 131,556,516	\$ (3,578,787)
MT	\$ 21,752,953	\$ 22,708,525	\$ (955,572)
NE	\$ 6,704,090	\$ 8,302,747	\$ (1,598,657)
SD	\$ 1,540,820	\$ 2,211,924	\$ (671,104)
VT	\$ 9,378,254	\$ 10,270,478	\$ (892,224)
WV	\$ 22,948,917	\$ 24,983,808	\$ (2,034,891)
WY	\$ 12,950,085	\$ 13,553,830	\$ (603,745)
TOTAL	\$ 285,552,855	\$ 277,837,768	\$ 7,715,087

* -- From the FCC 2004 *Support Spreadsheet*.

In total, eleven states would be receiving the non-rural high cost support, including Iowa and the ten states that currently receive this support. Each one of the states currently receiving support would lose some of the funding, and the State of Iowa would start receiving the funding. The net impact on the nationwide total is an increase in the fund size in the amount of \$7.7 million.